

STATE OF WISCONSIN
Department of Employee Trust Funds
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CORRESPONDENCE MEMORANDUM

DATE: April 18, 2011
TO: Wisconsin Deferred Compensation Board
FROM: Shelly Schueller, Director
Wisconsin Deferred Compensation Program
SUBJECT: Financial Statements Audit Results


Staff recommends that the Board accept the 2010 WDC Financial Statements Audit as prepared by Clifton Gunderson.

As part of its overall program responsibilities, the Board requires annual financial statements audits on the Wisconsin Deferred Compensation Program (WDC). The purpose of these audit reports is to have an independent public accounting firm express its opinion as to whether the financial statements accurately reflect the financial position of the WDC. The audit reports should demonstrate that all participant accounts and contributions are being properly balanced and records are being kept accurately, and that all WDC assets are balanced. Financial statements audit reports may also reveal any misstatements due to errors, fraud or other reasons that would cause the financial statements to inaccurately reflect the financial position of the WDC.

Pursuant to their contract with the Board, Clifton Gunderson has completed the WDC's comprehensive financial statements audit for the year ending December 31, 2010. As the attached report indicates, the financial statements present the net assets available for plan benefits as of December 31, 2010 and December 31, 2009. The financial highlights for the year ending December 31, 2010, include the following:

- WDC net assets at the close of 2010 were \$2.6 billion. This is an increase of approximately \$300 million, and can be attributed to gains on mutual fund investments in 2010.
- Mutual fund investment income decreased to \$275.8 million in contrast to a gain of \$342.1 million in 2009.
- In 2010, the WDC's overall rate of return on mutual fund investments was approximately 11.22%. This compares to 20.10% in 2009.

Reviewed and approved by Matt Stohr, Administrator, Division of Retirement Services


Signature

4/20/11
Date

Board	Mtg Date	Item #
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2010 WDC Financial Statements Audit Report

April 18, 2011

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- Employee contributions in 2010 were \$145.9 million. This is an increase from \$142.7 million in 2009.
- Distributions to participants increased in 2010 to \$92.0 million from \$66.9 million in 2009.

The financial statements audit report findings illustrate the WDC's overall good health. Participant deferrals, investment income and expenses are all properly accounted for in the financial statements report.

Recommendation

Staff recommends that the Board accept the 2010 WDC Financial Statements Audit report as prepared by Clifton Gunderson.

Staff from Clifton Gunderson and the Department will be available at the meeting to discuss the audit results with the Board.

Attachment – Draft Financial Statements Report

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April 21, 2011

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
AND TRUST
Madison, Wisconsin**

**FINANCIAL STATEMENTS
December 31, 2010 and 2009**

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Independent Auditor's Report

State of Wisconsin Deferred
Compensation Board

We have audited the accompanying statements of net assets available for plan benefits of the State of Wisconsin Public Employees Deferred Compensation Plan and Trust (the Plan), as of December 31, 2010 and 2009 and the related statements of changes in net assets available for plan benefits for the years ended December 31, 2010 and 2009. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits as of December 31, 2010 and 2009 and the changes in net assets available for plan benefits for the years ended December 31, 2010 and 2009 in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Baltimore, Maryland
May __, 2011

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010 and 2009**

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This section presents management's discussion and analysis of the Wisconsin Public Employees Deferred Compensation Plan and Trust (the Plan) financial performance, which provides an overview of the Plan's financial position and activities as of December 31, 2010, 2009 and 2008 and for the years then ended. It is presented as required supplemental information to the financial statements.

FINANCIAL HIGHLIGHTS

- Net assets available for plan benefits increased by approximately \$300.0 million during the year ended December 31, 2010 from \$2.3 billion at December 31, 2009 to \$2.6 billion at December 31, 2010. This increase was primarily due to investment gains during 2010. Net assets available for plan benefits increased by approximately \$500.0 million during the year ended December 31, 2009 from \$1.8 billion at December 31, 2008 to \$2.3 billion at December 31, 2009. This increase was primarily due gains on variable earnings investments during 2009 as compared to losses during 2008 as well as gains in fixed earnings investments. Refer to fund rate of return information in the next bulleted highlight.
- Investment income earned on variable earnings investments decreased from a \$342.1 million gain for the year ended December 31, 2009 to a \$275.8 million gain for the year ended December 31, 2010 due to less favorable market conditions in 2010 as compared to 2009. Investment income earned in variable earnings investments increased from a \$572.6 million loss for the year ended December 31, 2008 to a \$342.1 million gain for the year ended December 31, 2009 due to favorable market conditions during 2009. The plan's rate of return on mutual fund investments was approximately 11.22 %, 20.10% and (24.15)% for the years ending December 31, 2010, 2009 and 2008 respectively.
- Interest income earned on fixed earnings investments was \$18.9 million, \$19.9 million and \$22.7 million for the years ended December 31, 2010, 2009 and 2008, respectively. Changes in interest income relate directly to the balance of fixed earnings investments during the year and their respective interest rates.
- Employee contributions increased from \$142.7 million for the year ended December 31, 2009 to \$145.9 million for the year ended December 31, 2010. Employee contributions decreased from \$145.5 million for the year ended December 31, 2008 to \$142.7 million for the year ended December 31, 2009. These changes were primarily due to changes in the average contribution per participant as well as fluctuations in the number of active plan participants from year to year. There were 44,901, 43,759 and 42,228 active plan participants as of December 31, 2010, 2009 and 2008, respectively.
- Distributions to participants increased from \$66.9 million for the year ended December 31, 2009 to \$92.0 million for the year ended December 31, 2010. Distributions to participants decreased from \$74.8 million for the year ended December 31, 2008 to \$66.9 million for the year ended December 31, 2009. These changes were primarily due to changes in the average distribution per retiree as well as fluctuations in the number of individuals receiving distributions from year to year. There were 6,073, 5,759 and 5,681 individuals who received a distribution during the years ended December 31, 2010, 2009 and 2008, respectively.

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FINANCIAL HIGHLIGHTS (CONTINUED)

- The change in the value of the self-directed option (SDO) directly relates to participant contributions and income earned on participant SDO accounts. The value of the SDO increased from December 31, 2009 to December 31, 2010 by \$8.3 million, compared to an increase of \$11.9 million from December 31, 2008 to December 31, 2009.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of the Statements of Net Assets Available for Plan Benefits and the Statements of Changes in Net Assets Available for Plan Benefits. These statements provide information about the financial position and activities of the Plan as a whole. These amounts are included in the Statement of Fiduciary Net Assets on the State of Wisconsin's financial statements.

The following Summary of Net Assets Available for Plan Benefits and the Summary of Changes in Net Assets Available for Plan Benefits provide information about the financial position and activities of the Plan as a whole.

**Table 1
Summary of Net Assets Available for Plan Benefits**

	December 31, 2010	December, 31, 2009	December 31, 2008
Investments	\$ 2,642,126,725	\$ 2,275,145,616	\$ 1,819,705,437
Receivables - contributions	535,749	543,450	482,383
Total assets	<u>2,642,662,474</u>	<u>2,275,689,066</u>	<u>1,820,187,820</u>
Administrative expenses payable	<u>1,987,426</u>	<u>2,024,690</u>	<u>2,723,981</u>
Net assets available for plan benefits	<u>\$ 2,640,675,048</u>	<u>\$ 2,273,664,376</u>	<u>\$ 1,817,463,839</u>

**STATE OF WISCONSIN PUBLIC EMPLOYEES
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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**Table 2
Summary of Changes in Net Assets Available for Plan Benefits**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Additions			
Employee contributions	\$ 145,884,476	\$ 142,666,142	\$ 145,498,687
Transfers-in from other plans	12,128,859	8,129,207	14,929,723
Investment income:			
Interest income	18,914,964	19,877,682	22,680,354
Mutual fund investment income/(loss)	275,838,067	342,069,884	(572,571,835)
Change in value of self-directed option	<u>8,285,757</u>	<u>11,923,445</u>	<u>(16,019,563)</u>
Total additions	<u>461,052,123</u>	<u>524,666,360</u>	<u>(405,482,634)</u>
Deductions			
Distributions to participants	92,022,449	66,883,166	74,772,493
Administrative expenses	1,626,351	1,264,021	1,112,549
Change in value of group annuity policy	<u>392,651</u>	<u>318,636</u>	<u>432,295</u>
Total deductions	<u>94,041,451</u>	<u>68,465,823</u>	<u>76,317,337</u>
Net increase/(decrease)	<u>\$ 367,010,672</u>	<u>\$ 456,200,537</u>	<u>\$ (481,799,971)</u>

FINANCIAL CONTACT

The Plan's financial statements are designed to present users with a general overview of the Plan's finances and to demonstrate the trustees' accountability. If you have questions about the report or need additional financial information, contact the Deferred Compensation Director for the Department of Employee Trust Funds at P.O. Box 7931, Madison, Wisconsin 53707-7931.

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FINANCIAL STATEMENTS

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
STATEMENTS OF NET ASSETS AVAILABLE FOR PLAN BENEFITS
December 31, 2010 and 2009**

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	<u>2010</u>	<u>2009</u>
ASSETS		
Investments:		
Fixed earnings investments	\$ 579,873,405	\$ 541,622,792
Variable earnings investments	2,003,644,333	1,682,806,943
Self-directed option	56,070,268	47,784,511
Annuity investments	<u>2,538,719</u>	<u>2,931,370</u>
Total investments	2,642,126,725	2,275,145,616
Receivable - contributions	<u>535,749</u>	<u>543,450</u>
Total assets	2,642,662,474	2,275,689,066
LIABILITIES		
Administrative expenses payable	<u>1,987,426</u>	<u>2,024,690</u>
NET ASSETS AVAILABLE FOR PLAN BENEFITS	<u><u>\$ 2,640,675,048</u></u>	<u><u>\$ 2,273,664,376</u></u>

The accompanying notes are an integral part of the financial statements.

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS
Years Ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
ADDITIONS		
Employee contributions	\$ 145,884,476	\$ 142,666,142
Transfers-in from other plans	12,128,859	8,129,207
Investment income:		
Interest income	18,914,964	19,877,682
Investment income from variable earnings investments	275,838,067	342,069,884
Change in value of self-directed option	<u>8,285,757</u>	<u>11,923,445</u>
Total additions	<u>461,052,123</u>	<u>524,666,360</u>
DEDUCTIONS		
Distributions to participants	92,022,449	66,883,166
Administrative expenses	1,626,351	1,264,021
Change in value of group annuity policy	<u>392,651</u>	<u>318,636</u>
Total deductions	<u>94,041,451</u>	<u>68,465,823</u>
NET INCREASE	367,010,672	456,200,537
NET ASSETS AVAILABLE FOR PLAN BENEFITS, BEGINNING OF PERIOD	<u>2,273,664,376</u>	<u>1,817,463,839</u>
NET ASSETS AVAILABLE FOR PLAN BENEFITS, END OF PERIOD	<u>\$ 2,640,675,048</u>	<u>\$ 2,273,664,376</u>

The accompanying notes are an integral part of the financial statements.

**STATE OF WISCONSIN PUBLIC EMPLOYEES
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NOTES TO FINANCIAL STATEMENTS
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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The State of Wisconsin Public Employees Deferred Compensation Plan and Trust (the Plan) was established in 1981 pursuant to Wisconsin State Statute Section 40.80. In accordance with Section 457 of the Internal Revenue Code (IRC), the Plan limits the amount of an employee's annual contributions to an amount not to exceed the lesser of \$16,500 for calendar years 2010 and 2009 or 100% of the employee's eligible compensation. The Plan also provides certain catch-up contribution provisions for participants age 50 or older and for participants within three years of their normal retirement age. Amounts contributed by employees are deferred for federal and state income tax purposes until benefits are paid to the employees. The Plan allows the employer to make contributions to the Plan on behalf of employees. No such contributions were made in 2010 or 2009.

Under the Plan provisions, employees of the State of Wisconsin and municipalities in Wisconsin (employer) that elect to participate are eligible to contribute to the Plan through payroll deductions. As of December 31, 2010 and 2009, approximately 29% of the Plan assets were applicable to State employees and the remaining 71% represent the assets of other Wisconsin municipalities participating in the Plan.

Under provisions of the Small Business Job Protection Act of 1996 (SBJPA), which became effective for plan years beginning after December 31, 1996, assets of IRC Section 457 plans must be held in a trust, custodial account, or annuity contract for the exclusive benefit of employees and beneficiaries. In March 2006, Wisconsin Act 150 was signed into law, creating Code Section s.40.80 (2)(g) of the Wisconsin Statutes. Section s.40.80 (2)(g) incorporates requirements of the federal tax code by establishing the Wisconsin Deferred Compensation (WDC) Program as a trust. Furthermore, it established the Deferred Compensation Board members as trustees with fiduciary responsibilities.

The Plan is governed by the Wisconsin Deferred Compensation Board (the Board) and is administered by a third party. The Board is also the trustee of the Plan.

Employees electing to participate in the Plan may contribute to or exchange within any of the following investment options:

- Fixed earnings investment of the Stable Value option managed by Galliard Capital Management, Inc.
- Fixed earnings investment with M&I Bank of Southern Wisconsin.
- Group annuity option managed and underwritten by Great-West Life & Annuity Insurance Company
- Variable earnings investments options consisting of select mutual funds.
- Self-directed option – Personal Choice Retirement Accounts (PCRA) offered by Charles Schwab & Co., Inc. Participants may exchange funds accumulated in the core options of the Plan to a PCRA account, which provides approximately 3,000 additional investment offerings other than the Plan's core options.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

General (continued)

Employees may withdraw the value of the funds contributed to the Plan upon termination of employment with the employer, retirement, death, or financial hardship. Employees, or their beneficiaries, may select various payout options which include lump sum or periodic payments.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and present the net assets available for plan benefits and the net changes in those assets.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

Contributions and Contributions Receivable

Employee contributions are recognized when such amounts are withheld. Contributions receivable represent amounts withheld from employees but not yet received or remitted to the investment carriers at fiscal year-end and these receivables approximate fair value.

Investment Valuation

Fixed earnings investment values represent contributions received plus interest income earned to date less applicable charges and amounts withdrawn.

Variable earnings investments (mutual funds), including personal choice retirement accounts, are presented at fair values based on published quotations. All purchases and sales are recorded on a trade-date basis.

Assets held for annuity payout reserves and allocated insurance contracts are actuarially valued as reported by Great-West Life and approximate fair value

Distributions

Distributions are recorded at the time withdrawals are made from participant accounts.

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Mutual Fund Investment Income

Mutual fund investment income consists of dividend income and realized and unrealized gains and losses attributed to the mutual funds.

Interest Income

During 2010, the Stable Value option paid interest ranging from 3.93% to 4.22% (ranging from 3.89% to 4.58% during 2009). At December 31, 2010 and 2009, the actual crediting rate was 3.93% and 4.40%, respectively.

During 2010, the M&I Bank of Southern Wisconsin paid interest ranging from 0.26% to 0.48% (ranging from 0.41% to 1.44% during 2009). At December 31, 2010 and 2009, the actual crediting rate was 0.26% and 0.41%, respectively.

Interest income is recorded as earned on the accrual basis.

Participants' Accounts

Earnings are credited to individual participants' accounts based upon the investment performance of each specific option selected.

Transfers-In from Other Plans

Transfers-in represent the balances of assets transferred by employees from other eligible plans.

Related Party Transactions

Certain members of the Deferred Compensation Board, Wisconsin Retirement Board, Teachers Retirement Board and Employee Trust Funds Board are participating or retired members of the Plan.

**STATE OF WISCONSIN PUBLIC EMPLOYEES
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NOTE 2 – INVESTMENTS

Investments held in the name of the Plan at December 31, 2010 and 2009 were as follows. Investments marked with an asterisk (*) represent individual investment options, which exceed 5% of net assets available for plan benefits as of December 31, 2010 and 2009. Investments marked with two asterisk (**) represent international mutual funds.

	Fair and Carrying Value	
	2010	2009
Fixed earnings investments:		
Stable Value	\$ 504,222,901 *	\$ 463,407,428 *
M&I Bank of Southern Wisconsin	75,650,504	78,215,364
Total fixed earnings investments	<u>579,873,405</u>	<u>541,622,792</u>
Variable earnings investments:		
Fidelity Contrafund	385,783,862 *	344,610,458 *
Vanguard Wellington Fund Admiral Shares	276,902,193 *	235,511,676 *
Vanguard Institutional Index Fund Plus Shares - Institutional Plus Shares	212,274,941 *	190,975,218 *
T. Rowe Price Mid-Cap Growth Fund	252,082,057 *	197,292,324 *
DFA US Micro Cap Fund	151,691,654	113,166,359
Euro - Pacific Growth Fund - Class W	131,449,824 *& **	119,987,858 *& **
Vanguard Long-Term Investment Grade Fund Admiral Shares	93,497,704	84,128,773
Vanguard Admiral Treasury Money Market Fund - Admiral Shares	47,957,464	55,267,308
BlackRock Mid Cap Equity Index Fund - Class F	91,444,578	63,341,008
Federated U.S. Government Securities Fund - 2-5 Institutional Shares	35,720,336	34,328,034
BlackRock EAFE Equity Index Fund - Class W	61,230,815 **	52,997,069 **
Vanguard Target Retirement 2015 Fund	52,181,872	37,993,998
Vanguard Target Retirement 2025 Fund	46,514,533	32,536,114
BlackRock U.S. Debt Index Fund - Class W	41,068,126	30,809,508
BlackRock Russell 2000 Index Collective T	34,951,540	24,381,660
Calvert Social Investment Fund - Equity Portfolio - Class I	25,228,837	20,833,010
Vanguard Target Retirement 2035 Fund	30,344,712	20,234,644
Vanguard Target Retirement Income Fund	17,510,859	12,917,816
Vanguard Target Retirement 2045 Fund	15,808,426	11,494,108
Total variable earnings investments	<u>2,003,644,333</u>	<u>1,682,806,943</u>
Self-directed option:		
Personal Choice Retirement Accounts - Charles Schwab	56,070,268	47,784,511
Group Annuity Policy:		
Great West Life	<u>2,538,719</u>	<u>2,931,370</u>
Total investments	<u>\$ 2,642,126,725</u>	<u>\$ 2,275,145,616</u>

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NOTE 2 – INVESTMENTS (CONTINUED)

At December 31, 2010, \$1 of the fixed earnings investments on deposit at Vanguard Admiral Treasury Money Market and \$1,987,425 of the Stable Value option fixed earnings investment totaling \$1,987,426 was payable to the Board for Plan administration costs. At December 31, 2009, \$1 of the fixed earnings investment on deposit at Vanguard Admiral Treasury Money Market and \$2,024,689 of the Stable Value option fixed earnings investment totaling \$2,024,690 were payable to the Board for Plan administration costs.

The fixed earnings investments with M&I Bank of Southern Wisconsin are insured by the Federal Deposit Insurance Corporation up to \$250,000 per participant. At December 31, 2010 and 2009, 190 and 12 accounts of individual participants held more than \$250,000, respectively.

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Plan would not be able to recover the value of its deposits, investments, or collateral securities that were in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are uninsured or not registered in the name of the Plan and are held by either the counterparty or the counterparty's trust department or agent, but not in the Plan's name.

The Stable Value option and the mutual funds do not have securities that are used as evidence of the investments and therefore are not exposed to custodial credit risk.

Interest rate risk is the risk that changes in interest rates that will adversely affect the value of an investment.

As of December 31, 2010 and 2009, the Plan had the following investments and maturities in its fixed earnings and mutual fund investments, which included investments in bonds.

	2010		2009	
	Fair Value	Weighted Average Maturity	Fair Value	Weighted Average Maturity
Fixed earnings investment:				
Stable Value	\$ 504,222,901	3.72	\$ 463,407,428	4.91
Variable earnings investments:				
Vanguard Wellington Fund Admiral Shares	276,902,193	8.60	235,511,676	9.80
Vanguard Long-Term Investment Grade Fund Admiral Shares	93,497,704	23.80	84,128,773	23.10
Vanguard Target Retirement 2015 Fund	52,181,872	6.64	37,993,998	6.70
Vanguard Target Retirement 2025 Fund	46,514,533	7.00	32,536,114	6.70
Federated U.S. Government Securities Fund - 2-5 Institutional Shares	35,720,336	3.30	34,328,034	3.60
BlackRock U.S. Debt Index Fund - Class W	41,068,126	6.33	30,809,508	6.20
Vanguard Target Retirement 2035 Fund	30,344,712	7.00	20,234,644	6.70
Vanguard Target Retirement 2045 Fund	15,808,426	7.00	11,494,108	6.70
Vanguard Target Retirement Income Fund	17,510,859	7.25	12,917,816	7.49

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NOTE 2 – INVESTMENTS (CONTINUED)

Credit risk is the risk that the Plan will lose money because of the default of the security of the issuer or investment counterparty. The stable value option and the variable earnings mutual funds are unrated.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan's investment in a single issuer. The Plan's investments are managed by several fund managers. The concentrations of investments are determined by the participants' elections to invest in the available investment options as selected by the Board. The investments that exceed 5% are identified on page 11.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the investment. The Plan allows the option of investments in mutual funds of countries outside the U.S. that invest in securities not required to disclose the individual assets within the fund. The fair value of these investments was \$192,680,639 and \$172,984,927 as of December 31, 2010 and 2009, respectively. The individual funds are identified on page 11.

An agreement was reached between the Board and Great-West Life on April 27, 1994, whereby the Plan purchased a single premium group annuity policy on May 1, 1994 for \$12,946,917 (the balance in the annuity payout reserve at the time of purchase). Under the terms of the policy, Great-West Life assumed the contractual liability for the remaining annuity terms and amounts and assumed all risk related to market fluctuation. The actuarial value of the group annuity contracts, as determined by Great-West Life, was \$2,538,719 and \$2,931,370 at December 31, 2010 and 2009, respectively.

NOTE 3 – PLAN ADMINISTRATION

The Plan receives periodic recordkeeping fee payments from certain investment companies. Such fees are paid to the Board to support Board costs, which include the contractual fee paid to the third-party administrator, Great-West Life.

Each participant in the Plan is charged a fee based upon their account balance and a tiered dollar charge.

Participant Account Balance	Monthly/Annual Participant Fee
\$1 - \$5,000	\$0/\$0
\$5,001 - \$25,000	\$1/\$12
\$25,001 - \$50,000	\$2/\$24
\$50,001 - \$100,000	\$4/\$48
\$100,001+	\$5.50/\$66

Fees assessed in excess of the Plan administrative expenses as of December 31, 2010 and 2009 were \$1,987,426 and \$2,024,690, respectively. At the Board's discretion, these excess fees are invested and available to defray future administrative expenses and participant fee increases.

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NOTE 4 – TAX STATUS

The Plan is reviewed by legal counsel to ensure conformity with Section 457 of the IRC. Accordingly, any amount of compensation deferred under the Plan and any income attributable to the amounts so deferred shall be included in the gross income of the participant only for the taxable year in which such compensation or other income is paid or otherwise made available to the participant or other beneficiary.

NOTE 5 – CONTINGENCIES

The Plan is subject to various threatened and pending claims. It is the opinion of management that the ultimate liability arising from such threatened and pending claims will not have a material effect on the financial position of the Plan. The Plan is exposed to various other liabilities and risks related to the fiduciary responsibility of directors and officers.

NOTE 6 – RISK AND UNCERTAINTIES

The Plan, as directed by participants, may invest in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in the values of investment securities may occur in the near term and that such changes could materially affect the amounts reported in the Statements of Net Assets Available for Plan Benefits.

NOTE 7 – PLAN TERMINATION

The State may terminate the Plan at any time, although no intent to terminate the Plan has been expressed. In the event of termination, all participants will remain fully vested.

NOTE 8 – SUBSEQUENT EVENTS

The Plan evaluated subsequent events through May __, 2011 the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2010, but prior to May __, 2011 that provided additional evidence about conditions that existed at December 31, 2010, have been recognized in the financial statements for the year ended December 31, 2010. Events or transactions that provided evidence about conditions that did not exist at December 31, 2010, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended December 31, 2010.